

WATER/DON/LEP:jlj

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION

RESOLUTION NO. W-4360

November 21, 2002

R E S O L U T I O N

(RES. W-4360), DEL ORO WATER COMPANY (DOWC), FERNDALE DISTRICT (FD). ORDER AUTHORIZING AN INCREASE IN RATES PRODUCING AN INCREASE IN ANNUAL REVENUES OF \$1,095 OR 0.28% FOR TEST YEAR 2002.

SUMMARY

By Draft Advice Letter, accepted on February 19, 2002, FD seeks an increase in rates for water service to recover increased operating expenses and to provide an adequate rate of return on its capital investment. This resolution grants a general rate increase in gross annual revenues of \$1,095 or 0.28% for Test Year 2002. This increase will provide a 9.84% rate of return on rate base in the test year.

BACKGROUND

FD requested authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase rates for water service to produce additional revenues of \$47,360 or 12.12% in 2002. FD's request shows 2002 gross revenue of \$390,900 at present rates increasing to \$438,260 at proposed rates to produce a rate of return on rate base of 9.971%. FD serves approximately 720 metered rate customers in and around the City of Ferndale, Humboldt County.

The last general rate increase became effective on July 1, 1998, pursuant to Res. W-4104, which authorized a rate increase of \$25,305 or 7.0% for test year 1997 and a rate of return of 10.05%. There have been no additional rate increases for FD since the last GRC.

DISCUSSION

The Water Division (Division) made an independent analysis of FD's summary of earnings and issued its report in July 2002. Appendix A shows FD's and the Division's estimates of the summary of earnings at present, requested, and recommended rates.

Appendix A also shows differences between FD's and the Division's estimates in operating revenues, and expenses.

FD was informed of the Division's differing views of operating revenues and expenses and disagreed with the Division's estimates of non-labor inflation factors applied to many expense items, employee labor expense, office salaries, office expenses, regulatory commission expense and rate of return. In an August 26, 2002 meeting, representatives of the Division and utility met to discuss each of the estimates in dispute with the following results:

Non-Labor Inflation Factor as applied to many expense items.

FD provided recent up-dated information that demonstrated that Division's estimate of the current composite non-labor inflation was understated. Division agreed and changed its estimate accordingly. The revised estimate, to which both parties agree, is reflected in the adopted rates column of Appendix A.

Employee Labor

FD presented its reasons justifying its higher estimate of employee labor. After much discussion, Division accepted FD's estimate, which is reflected in the adopted rates column of Appendix A.

Office Salaries and Office Expense

FD presented its reasons justifying its higher estimate of office salaries and office expense. Division was not persuaded to change its estimate, indicating that its estimates were based on similar disallowances found reasonable by the Commission in DOWC's Paradise Pines District General Rate Increase (Res. W-4333, dated June 6, 2002). FD eventually accepted Division's estimate, which is reflected in the adopted rates column of Appendix A.

Regulatory Commission Expense

FD provided recent up-dated information that demonstrated that Division's estimate of the current regulatory commission expense was understated. Division agreed and changed its estimate accordingly. The revised estimate, to which both parties agree, is reflected in the adopted rates column of Appendix A.

Rate-of-Return

FD requested a rate of return of 9.971% for test year 2002 based on the factors used by Division in 2001. Based on newly updated 2002 factors, the Commission's Audit & Compliance (A&C) Branch recommends a rate of return of 9.84% for FD. After explaining how Division estimated its recommended rate of return, FD was satisfied. The Division's recommended rate of return, to which both parties agree, is reflected in the adopted rates column of Appendix A. Division found that the return on investment calculation produced a revenue requirement of \$396,496 at the rate of return of 9.84%.

FD's current rate structure consists of one schedule: Schedule No. FD-1A, Annual General Metered Service.

At the Division's recommended rates shown in Appendix B, the bill for a typical monthly metered customer, using 8,500 cubic feet per month, would stay the same at \$45.15. A comparison of customer bills at present and recommended rates is shown in Appendix C. The adopted quantities and tax calculations are shown in Appendix D.

As stated earlier, it has been five years since FD's last general rate increase. Since that time the utility's rate of return has decreased by 21 basis points due to changes in: 1) its capital structure, 2) its cost of debt, and 3) various economic factors in the water industry that affect return on equity. In addition, FD's rate base has decreased by approximately \$133,000. The above-referenced factors are the primary reasons why FD is experiencing a minimal rate increase in this resolution.

NOTICE AND PUBLIC MEETING

A notice of the proposed rate increase was mailed to each customer on March 26, 2002. The Division received one letter protesting the rate increase. The

Consumer Affairs Branch received 22 complaints in 2000 and 24 complaints in 2001 but they were about DOWC, as a whole, and are not district specific.

A public meeting was held on Thursday, April 18, 2002, at 7 p. m. in Ferndale. The Commission representative explained the different types of increases a utility can receive, and also the general method the Division uses to examine the utility's request. The Utility's representative explained why the utility needed the increase. Approximately nine customers attended the meeting and they asked questions about high energy costs and additional spring sources.

COMPLIANCE

There are no outstanding Commission orders requiring system improvements.

The utility has been filing annual reports as required. FD needs to update Rules 9, Rendering and Payment of Bills, and 10, Disputed Bills. The Preliminary Statement should be revised to include a recent service area extension.

The Division recommends that the Commission authorize a rate increase of \$1,095 or 0.28%. This will increase estimated annual revenues from \$398,169 to \$399,264 at recommended rates as shown in Appendix A. This increase will produce a rate of return of 9.84%.

FINDINGS

1. The Division's recommended summary of earnings (Appendix A) is reasonable and should be adopted.
2. The rates proposed by the Division (Appendix B) are reasonable and should be adopted.
3. The quantities (Appendix D) used to develop the Division's recommendations are reasonable and should be adopted.
4. FD should be ordered to update Rules 9, Rendering and Payment of Bills, and 10, Disputed Bills. The Preliminary Statement should be revised to include a recent service area extension.
5. The rate increase proposed by the Division is justified and the resulting rates are just and reasonable.

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 for Del Oro Water Company, Ferndale District, to file an advice letter incorporating the summary of earnings and the revised schedule attached to this resolution as Appendices A and B, respectively, and concurrently cancel its presently effective rate schedule: Schedule No. FD-1A, Annual General Metered Service. Its filing shall comply with General Order 96-A. The effective date of the revised schedule shall be five days after the date of its filing.
2. Del Oro Water Company, Ferndale District, is ordered to update Rules 9, Rendering and Payment of Bills, and 10, Disputed Bills, and to revise the Preliminary Statement to include a recent service area extension.
3. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on November 21, 2002; the following Commissioners voting favorably thereon:

WESLEY M. FRANKLIN
Executive Director

LORETTA M. LYNCH
President

HENRY M. DUQUE

CARL W. WOOD

MICHAEL R. PEEVEY

Commissioners

Commissioner Geoffrey F. Brown, being
necessarily absent did not participate.

Appendix A
Del Oro Water Company - Ferndale
Summary of Earnings
Test Year 2002

	Estimated 2002 At Present Rates				Estimated 2002 At Proposed Rates				Staff Recommended Rates
	Staff	Utility	Utility Exceeds Amount	%	Staff	Utility	Utility Exceeds Amount	%	
Operating revenues									
Metered rates	398,169	390,900	(7,269)	-2%	442,180	438,260	(3,920)	-1%	399,264
Other revenue	-	-	-		-	-	-		-
Total revenue	398,169	390,900	(7,269)	-2%	442,180	438,260	(3,920)	-1%	399,264
Oper. & Maint. Exp:									
Power	11,788	37,881	26,093	221%	11,788	37,881	26,093	221%	11,788
Other volume related	3,643	3,925	282	8%	3,643	3,925	282	8%	3,643
Employee labor	82,599	82,599	-	0%	82,599	82,599	-	0%	82,599
Materials	6,980	7,866	886	13%	6,980	7,866	886	13%	6,980
Contract work	3,602	4,377	775	22%	3,602	4,377	775	22%	3,602
Transportation expenses	22,482	22,482	-	0%	22,482	22,482	-	0%	22,482
Other plant maintenance	440	440	-	0%	440	440	-	0%	440
Office salaries	19,914	20,357	443	2%	19,914	20,357	443	2%	19,914
Management salaries	11,944	12,165	221	2%	11,944	12,165	221	2%	11,944
Employee pens. & benefits	9,202	9,202	-	0%	9,202	9,202	-	0%	9,202
Uncollectibles expense	1,174	1,174	-	0%	1,174	1,174	-	0%	1,174
Office services & rentals	9,265	9,265	-	0%	9,265	9,265	-	0%	9,265
Office supplies and expenses	16,507	17,092	585	4%	16,507	17,092	585	4%	16,507
Professional services	3,844	7,644	3,800	99%	3,844	7,644	3,800	99%	3,844
Insurance	11,812	11,812	-	0%	11,812	11,812	-	0%	11,812
Regulatory comm. expense	2,684	3,000	316	12%	2,684	3,000	316	12%	2,684
General expenses	1,600	1,600	-	0%	1,600	1,600	-	0%	1,600
Total operating expenses	219,480	252,881	33,401	15%	219,480	252,881	33,401	15%	219,480
Depreciation	58,564	58,564	-	0%	58,564	58,564	-	0%	58,564
Payroll tax	9,380	9,380	-	0%	9,380	9,380	-	0%	9,380
Property taxes	14,162	14,162	-	0%	14,162	14,162	-	0%	14,162
State tax	825	800	(25)	-3%	4,715	2,499	(2,216)	-47%	921
Federal income tax	1,276	-	(1,276)	-	7,156	3,866	(3,290)	-46%	1,425
Total deductions	303,687	335,787	32,100	11%	313,457	341,352	27,895	9%	303,932
Net Revenue	94,482	55,113	(39,369)	-42%	128,723	96,908	(31,815)	33%	95,332
Rate Base:									
Average plant	1,401,398	1,401,398	-	0%	1,401,398	1,401,398	-	0%	1,401,398
Average accum. dep.	321,548	321,548	-	0%	321,548	321,548	-	0%	321,548
Net plant	1,079,850	1,079,850	-	0%	1,079,850	1,079,850	-	0%	1,079,850
Less: Advances	79,513	79,513	-	0%	79,513	79,513	-	0%	79,513
Contributions	57,508	57,508	-	0%	57,508	57,508	-	0%	57,508
Add: Working cash	18,290	21,073	2,783	15%	18,290	21,073	2,783	15%	18,290
Supplies	8,000	8,000	-	0%	8,000	8,000	-	0%	8,000
Rate Base	969,119	971,902	2,783	0.3%	969,119	971,902	2,783	0.3%	969,119
Rate of Return	9.75%	5.671%			13.28%	9.971%			9.84%

APPENDIX B

**DEL ORO WATER COMPANY
FERNDALE DISTRICT**

**Schedule No. FD-1A
Annual General Metered Service**

Applicability

Applicable to all metered water service.

Territory

The City of Ferndale and adjacent unincorporated territory, Humboldt County.

Rates

	<u>Per Meter</u> <u>Per Month</u>	
Quantity Rate:		
For all water delivered per 100 cu. ft.	\$3.682	
Service Charge:		
For 5/8 x 3/4 inch meter	\$ 13.85	
For 3/4 inch meter	\$ 19.50	(I)
For 1 inch meter	\$ 29.00	
For 1-1/2 inch meter	\$ 36.50	
For 2 inch meter	\$ 50.50	
For 3 inch meter	\$ 91.00	
For 4 inch meter	\$122.00	
For 6 inch meter	\$216.00	
For 8 inch meter	\$332.00	(I)

The Service Charge is a readiness-to-serve charge which is applicable to all metered service and to which is added the charge for water used computed at the quantity rates.

APPENDIX C

**DEL ORO WATER COMPANY
FERNDAL DISTRICT**

COMPARISON OF RATES

Metered Service

	<u>Per Meter Per Month</u>		
	<u>Present Rates</u>	<u>Proposed Rates TY 02</u>	<u>Percent Increase (Decrease)</u>
For 5/8 x 3/4 inch meter	\$ 13.85	\$ 13.85	N/A
For 3/4 inch meter	\$ 18.25	\$ 19.50	6.9%
For 1 inch meter	\$ 26.75	\$ 29.00	8.4%
For 1-1/2 inch meter	\$ 33.75	\$ 36.50	8.1%
For 2 inch meter	\$ 46.75	\$ 50.50	8.0%
For 3 inch meter	\$ 83.75	\$ 91.00	8.7%
For 4 inch meter	\$113.75	\$122.00	7.3%
For 6 inch meter	\$199.75	\$216.00	8.1%
For 8 inch meter	\$305.75	\$332.00	8.6%

Quantity Rates:

All water, per 100 cu. ft.	\$3.682	\$3.682	N/A
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A monthly typical bill for residential metered customers with a 5/8 x 3/4 inch meter as shown below will not increase or decrease at current rates and recommended rates for test year 2002.

Usage 100 cu.ft.	Present Bills	Recommended Bills	Amount Increase (Decrease)	Percent Increase (Decrease)
0	\$13.85	\$13.85	(\$0.00)	N/A
5	\$32.26	\$32.26	(\$0.00)	N/A
8.5 avg	\$45.15	\$45.15	(\$0.00)	N/A
10	\$50.67	\$50.67	(\$0.00)	N/A

APPENDIX D

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**DEL ORO WATER COMPANY
FERNDAL DISTRICT**

**ADOPTED QUANTITIES
Test Year 2002**

Offset Items

1. Purchased Power	
Pacific Gas & Electric Company	
Effective Date March 4, 2002	
Schedule A-1 Small General Service	
Energy Charge	
Summer, per kWh per month	\$0.14870
Winter, per kWh per month	\$0.10193
CUSTOMER CHARGE, per month	
Single Phase Service, per meter	\$8.10
Polyphase Service, per meter	\$12.00
Total Cost	\$11,788
Total kWh	58,280
2. Payroll	
Employee Labor	\$82,599
Office Salaries	\$19,914
Management Salaries	\$11,944
3. Payroll Taxes	\$9,380
4. Property Taxes	\$14,162

Service Connections

5. Meter Size	
5/8 x 3/4"	687
3/4"	5
1"	11
1-1/2"	1
2"	4
6"	1
8"	1
Total Metered	720

APPENDIX D

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**DEL ORO WATER COMPANY
FERNDAL E DISTRICT**

**ADOPTED TAX CALCULATIONS
Test Year 2002**

1.	Operating Revenues	\$ 399,264
2.	Expenses	219,480
3.	Depreciation	58,564
4.	Payroll Taxes	9,380
5.	Property Taxes	14,162
6.	Interest Expense	87,254
7.	Taxable Income for State Tax	10,424
8.	State Tax (8.84%)	921
9.	Taxable Income for FIT	9,503
10.	Federal Tax (15%)	1,425

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Resolution W-4360
DOWC-FD/DRAFT AL/DON/LEP:jlj

November 21, 2002